

SACO INDUSTRIES & REALTY LTD.

**1978 ANNUAL REPORT
FOR THE YEAR ENDING DECEMBER 31, 1978**

SACO INDUSTRIES & REALTY LTD.

(Incorporated under the laws of the Province of Alberta)

(FORMERLY SACO MINING CORP. LTD.)

DIRECTORS

Roy Sylyski
George G. Moss
Ronald Lauder
Alec J. Kurylo
Bill Kurylo

OFFICERS

Roy Sylyski: President
George G. Moss: Vice President & Secretary
Alec J. Kurylo: Vice President, Real Estate Division
Ronald Lauder: Treasurer

AUDITORS

Sax, Zimmel, Stewart & Co.

SOLICITORS

Berman, Reid, Davies

TRANSFER AGENT

Canada Trust, Edmonton - Calgary

BANKERS

Royal Bank of Canada

SUBSIDIARY COMPANY

Saco Peat Ltd.

INDUSTRIAL OFFICE

5308 - 72A Avenue
Edmonton, Alberta

OFFICE

2610 - 9925 Jasper Ave.
Edmonton, Alberta T5J 2X4

ANNUAL GENERAL MEETING, APRIL 6, 1979, 7:30 P.M.
CAPILANO MOTOR INN, EDMONTON, ALBERTA

REPORT OF THE DIRECTORS OF SACO INDUSTRIES & REALTY LTD.

The directors of Saco Industries & Realty Ltd. are pleased to present to shareholders a report covering the company activities to the year end of 1978 and the month of January 1979.

Since the change in the company name to Saco Industries & Realty Ltd. was effected, many exciting company developments have occurred.

A private placement of 1,500,000 shares provided \$750,000 for the treasury. This permitted the company to launch its activity in the real estate field, and since that time the directors have endeavored to expand in that area whenever a situation of interest presented itself.

Following the private placement, a rights offering netted the company \$543,000. In both transactions no commission was paid at all, and approximately \$60,000 in accrued interest was also added to the treasury.

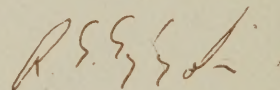
As a result of the rights offering, Saco pursued its interest in peat moss with the incorporation of a subsidiary company, Saco Peat Ltd. A licencing agreement and management agreement has been signed with Edmonton Engineering Ltd, and your directors are giving this project a high priority.

Saco has retained its mining claims in the Camsell River area of N.W.T. and brought the B.A. claims in the Uranium City area of N. Saskatchewan, to lease (ML5243). With the resurgence of world interest in uranium, your directors are closely watching developments in the Uranium City area where presently a uranium deposit, which was developed in the 50's, is now being brought into production.

Your directors wish to thank you, the shareholders, for your continuing patience and support in the building of this company. In 1978 we witnessed many exciting events in Saco, and we are very optimistic that during 1979 even more exciting things will happen.

Submitted on behalf of the board.

Yours very truly,



SACO INDUSTRIES & REALTY LTD.

PROFILE REVIEW AND OUTLOOK

It is our intent each year to reflect and re-emphasize to all previous and new shareholders the objectives of this company. Our prime objective is to give each shareholder an opportunity to participate through this Company in the long term growth and development of Western Canada, with particular emphasis on Alberta.

Due to the cyclical nature of certain industrial sectors in our economy it is the Boards intent to diversify and take advantage of these fluctuations in the best interests of the company, to provide long term growth and stability.

To achieve this, your company is currently involved in the following areas:

1. MINING AND ENERGY RESOURCE DIVISION:

Approximately 8 years ago your Board acquired a uranium and copper property at a time when the markets were highly depressed. Currently the market for uranium properties is very strong and markets seem to be picking up for copper. In light of this, consideration will be given to farm these properties out for further exploration, and development, if warranted.

2. HORTICULTURE RESOURCE DIVISION:

After 5 years of technical research and development a subsidiary company, Saco Peat Ltd., has been formed and financed for the development of a plant that will process a coarse grade of peat moss very much in demand in California and Texas.

3. REAL ESTATE DIVISION:

In 1977 and 1978 this division played a prominent role and will continue to do so. The company currently holds several properties; in the City of Edmonton and in close proximity to Edmonton and surrounding satellite areas.

In future the board will continue to acquire and dispose of properties as it sees fit and may also consider developing some of its prime land through joint ventures or other terms favourable to the Company

The following will provide a more comprehensive resume of Company holdings:

SACO INDUSTRIES & REALTY LTD.

HORTICULTURE RESOURCE DIVISION

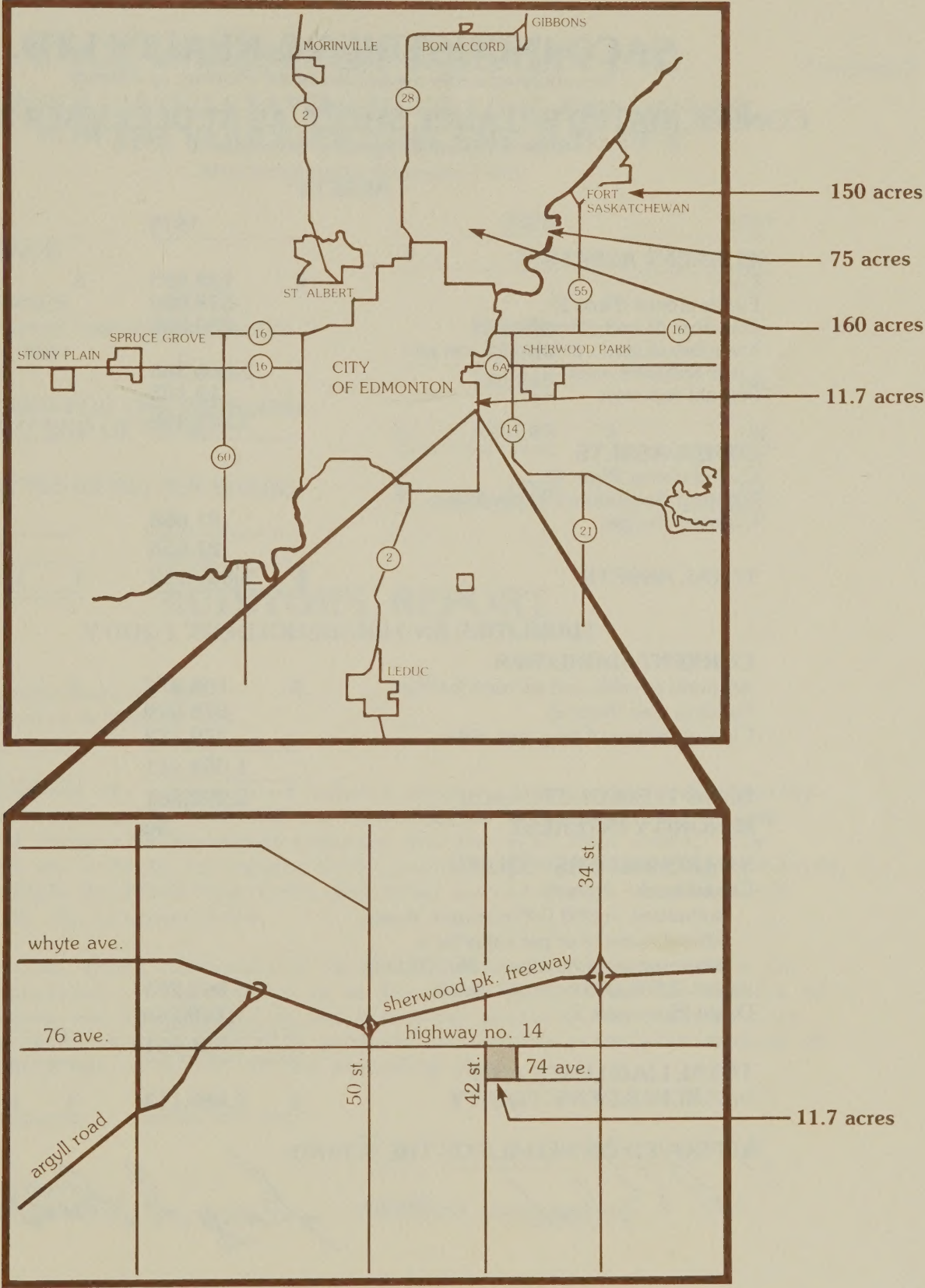
In 1973 a shareholder in Saco suggested to company directors they look into a peat moss operation that was in need of financial assistance. Mr. A. Palynchuk, from Edmonton Engineering Ltd., was asked to look into that particular peat moss situation on our behalf. Although no involvement in that operation was possible, the directors became keenly interested in peat moss as it became apparent there was a real need for peat moss.

At that time the lack of available engineering data for peat production convinced us that a technology would have to be developed. Mr. Palynchuk proposed a concept for the production of peat moss which, to a great extent would alleviate the major problem related to production, namely water removal, without severely damaging the quality of the product.

Peat moss is the accumulation of cellular moss plants which are slightly decomposed. It has the capacity to retain water up to 20 times its dry weight. Consequently for every 100 pounds of wet bog material it is necessary to remove 95 pounds of water to get nearly 5 pounds of commercial material. This material is transported to gardeners and nurseries where it is mixed with soil and re-watered. When not processed properly, excessive damage is done to the plant remains and the product is then of questionable value.

Mr. Palynchuk's concept became a system with his design and testing of various bench model pieces of equipment, and pilot plant tests do produce material of prime quality. Displaying samples in California always brought up the same question; when are we ready to start delivery. Through Saco Peat Ltd., the subsidiary that will bring the bog to production using Mr. Palynchuk's system, the directors expect commercial production to commence by the fall of 1979 and lead to the production of 350,000 4-cubic-foot bales of peat moss in 1980.

REAL ESTATE DIVISION
SACO INDUSTRIES & REALTY
CURRENT LAND HOLDINGS



SACO INDUSTRIES & REALTY LTD.

(Incorporated under the statutes of the Province of Alberta)

Statement 1

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1978

(With comparative figures at December 31, 1977)

ASSETS

	1978	1977
CURRENT ASSETS		
Cash	\$ 138,923	\$ 631,479
Funds in trust (Note 2)	578,029	546,166
Due from Shareholder (Note 3)	250,000	
Inventory of land - at lower of cost and net realizable value	2,868,360	627,656
Prepaid expenses	12,183	590
	<u>3,847,495</u>	<u>1,805,891</u>
OTHER ASSETS		
Cost of claims (Note 4)		15,154
Deferred development expenditures		115,826
Deferred charges	21,658	
	<u>21,658</u>	<u>130,980</u>
TOTAL ASSETS	<u>\$ 3,869,153</u>	<u>\$ 1,936,871</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 105,810	\$ 3,500
Funds in trust (Note 2)	578,029	546,166
Current portion of long term debt	370,772	43,774
	<u>1,054,611</u>	<u>593,440</u>

LONG TERM DEBT (Note 5)

2,092,561	481,226
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MINORITY INTEREST

30

SHAREHOLDERS' EQUITY

Capital stock - (Note 6)

Authorized: 6,000,000 common shares
without nominal or par value for a
maximum consideration of \$6,000,000

Issued: 2,586,000 common shares	862,200	862,205
Deficit (Statement 2)	(140,249)	
	<u>721,951</u>	<u>862,205</u>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

\$ 3,869,153	\$ 1,936,871
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APPROVED ON BEHALF OF THE BOARD:

R. S. S. Gal

Director

George A. Gross

Director

SACO INDUSTRIES & REALTY LTD.

Statement 2

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT FOR THE YEAR ENDED DECEMBER 31, 1978

(With comparative figures for 1977)

	1978	1977
REVENUE	\$ NIL	\$ NIL
EXPENSES		
Development expenditures (Schedule 1)	125,095	
Cost of claims	15,154	
	140,249	NIL
NET LOSS FOR THE YEAR AND DEFICIT END OF YEAR	\$ 140,249	\$ NIL
EARNINGS (LOSS) PER SHARE	\$ (.05)	\$ NIL

AUDITORS' REPORT

To the Shareholders of
Saco Industries & Realty Ltd.

We have examined the consolidated balance sheet of Saco Industries & Realty Ltd. as at December 31, 1978 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Edmonton, Alberta
February 27, 1979

Sax, Zimmel, Stewart & Co.

CHARTERED ACCOUNTANTS

SACO INDUSTRIES & REALTY LTD.

Statement 3

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 1978

(With comparative figures for 1977)

	1978	1977
SOURCE OF FUNDS		
Increase in long term debt	\$ 1,938,333	\$ 525,000
Issue of shares		750,000
Minority interest	30	
	<u>1,938,363</u>	<u>1,275,000</u>
APPLICATION OF FUNDS		
Operations -		
Net loss for the year	140,249	
Deduct items not requiring an outlay of funds:		
Deferred development expenditures	115,826	
Cost of claims	15,154	
	<u>9,269</u>	
Increase in deferred charges	21,658	
Increase in deferred development expenditures net of depreciation		23,950
Increase in current portion of long term debt	326,998	43,774
Decrease in issued shares	5	
	<u>357,930</u>	<u>67,724</u>
INCREASE IN WORKING CAPITAL	1,580,433	1,207,276
WORKING CAPITAL BEGINNING OF YEAR	<u>1,212,451</u>	<u>5,175</u>
WORKING CAPITAL END OF YEAR	<u>\$ 2,792,884</u>	<u>\$ 1,212,451</u>
REPRESENTED BY:		
CURRENT ASSETS	\$ 3,847,495	\$ 1,805,891
LESS CURRENT LIABILITIES	<u>1,054,611</u>	<u>593,440</u>
	<u>\$ 2,792,884</u>	<u>\$ 1,212,451</u>

SACO INDUSTRIES & REALTY LTD.
SCHEDULE OF DEVELOPMENT EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 1978

Schedule 1

EXPLORATION AND DEVELOPMENT

Mining claims	
Air travel	\$ 6,522
Assay reports	355
Camp supplies	3,936
Claim groupings and transfers	5,904
Depreciation	1,989
Equipment rentals	771
Freight	378
Maps	64
Property reports	1,552
Prospectors and geologists	8,533
Room and board	954
Wages and benefits	8,256
Peat moss operations	
Engineering reports	20,026
Freight	138
Options (Note 7)	5,199
Property searches, maps	27
Travel, sampling, and supplies	4,394
	68,998

ADMINISTRATIVE

Accounting and auditing	13,395
Annual and directors' meetings	4,026
Bank service charges	564
Bond insurance	125
Commissions	150
Depreciation	94
Directors' fees (Note 8)	1,250
Legal	10,345
Licenses	208
Listing fees	3,796
Management fees	43,500
Office and telephone	6,978
Other travel	6,189
Promotion	150
Prospectus	3,472
Rent	(40)
Transfer fees	2,246
Workers' Compensation	688
	97,136
	166,134

LESS INTEREST EARNED

(41,039)

TOTAL DEVELOPMENT EXPENDITURES

\$ 125,095

SACO INDUSTRIES & REALTY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

1. Accounting policies

(a) Consolidation

The consolidated financial statements include the accounts of the company and its 75 % owned subsidiary, Saco Peat Ltd.

(b) Deferred development expenditures

The company has expensed direct costs incurred for development and exploration during the present and past periods

(c) Deferred charges

The company has capitalized costs relating to the development of peat moss processing facilities

2. Rights offering

The company approved by resolution at a shareholders' meeting held on July 6, 1977 a Rights Offering to each shareholder as of July 6, 1977 to purchase one additional share of common treasury stock at .50 cents per share for each share held. As at December 31, 1978 Canada Trust had received \$543,000 for 1,086,000 common shares subscribed for as a result of this Rights Offering. The Canada Trust balance at that date comprises \$543,000 plus interest of \$35,029 totalling \$578,029. These funds must be held in trust and the share subscription will be released only after a satisfactory letter of commitment is received from a financial institution to provide the senior financing for the Peat Moss Project and upon consent of the Director of the Alberta Securities Commission. Subsequent to the year end the share subscription was released from trust.

3. Due from shareholder

The company, subsequent to the year end, has received \$250,000 cash payment from the shareholder.

4. Cost of claims

The company holds the following claims at December 31, 1978:

(a) MR2, MR7, MR8-10, MR13, MR24, Great Bear Mining District, North West Territories.

The total cost of all MR claims was \$789 (represented by cash outlay to the prospector) and the cost of lapsed claims has now been written off. There is no known market value that can be attached to these claims. All the claims except MR24 which is renewed until August 31, 1979, are renewed until April 7, 1980

(b) Saco 1 to Saco 4 inclusive, Great Bear Mining District, North West Territories. The cost of the claims was \$364, which represents the actual cash outlay to stake the claim. There is no known market value that can be attached to these claims. All claims are renewed until August 31, 1982.

(c) #BA1-12, S82894 - S82903 inclusive and S82913 and S82914, Athabasca Mining District, Province of Saskatchewan. These claims have now been designated as mineral lease ML5243. The cost of these claims was \$14,000. This amount is represented by a \$2,000 cash outlay to a prospector in April, 1971 and by \$12,000 for shares issued to prospectors (see Note 6(a)). All claims were in good standing as at December 31, 1978.

SACO INDUSTRIES & REALTY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

5. Long term debt

8% mortgage secured by land inventory with annual payments on principal and interest of \$78,774	\$ 491,833
9% mortgage secured by land inventory with semi-annual payments on principal and interest of \$23,063	300,000
13.5% mortgage secured by land inventory with monthly interest payment only. The principal balance is due October 1, 1979	250,000
10% mortgage secured by land inventory with yearly payments of:	
July 31, 1979 - \$ 61,500 plus interest	
July 31, 1980 - \$150,000 plus interest	
July 31, 1981 - \$150,000 plus interest	
July 31, 1982 - \$300,000 plus interest	661,500
10% mortgage secured by land inventory with annual payments on principal and interest of \$74,849	510,000
Due to shareholder - promissory note payable with interest at 10%. Principal is repayable on or before September 1, 1982.	250,000
	2,463,333
Current portion	370,772
	<u>\$ 2,092,561</u>

6. Capital stock

At December 31, 1978 there were 2,586,000 common shares issued out of 6,000,000 common shares authorized. This issued share capital comprises:

- 60,000 common shares at 10¢ each, issued to two prospectors for claims in Saskatchewan at an ascribed value per share. By escrow agreement dated April 1, 1971, the sale or transfer of shares allotted for claims has been restricted subject to release by the Alberta Securities Commission.
- 600,000 common shares at 1¢ each, issued to Canco Industrial and Mining Corporation Ltd. for its share of the claims in Saskatchewan at an ascribed value per share. By escrow agreement dated April 1, 1971 the sale or transfer of shares allotted for claims has been restricted subject to release by the Alberta Securities Commission.
- 105,000 common shares at 15¢ each for cash, issued to individuals for cash and for services rendered. The transfer of these shares has been restricted subject to release by the Alberta Securities Commission.
- 216,000 common shares were issued at 25¢ each for cash, less 5¢ per share commission. There were also 5,000 common shares issued at 25¢ each for directors' fees in 1972.
- During 1974 100,000 common shares were issued at 50¢ each for cash, less 10¢ per share commission.
- During 1977, authorized share capital was increased from 3,000,000 common shares to 6,000,000 common shares. A private placement of 1,500,000 common shares at 50¢ was also made during the year for the purpose of real estate investment. These matters were approved by resolution at a shareholders' meeting held on July 6, 1977.

SACO INDUSTRIES & REALTY LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1978

7. Options

- (a) The company has entered into an agreement to harvest or mine 70 to 80 acres of peat moss, with a commitment to pay \$500.00 per year lease payments or 5¢ per commercial bale of peat moss. The company paid a \$500.00 lease payment for an option to May, 1979.
- (b) The company has entered into an agreement to acquire a peat bog from Hardrock Consulting Ltd. leased from the Government of Alberta. The company is to act as trustee for the shareholders and 80% of the profit realized by the company from operation, management, resale or leasing of the government lease are to be distributed to the shareholders and the other 20% allotted to the company for administration and exploration.

8. Directors' fees

The company has paid no directors' fees except for those paid in 1972 upon termination of a director as per Note 5(d). By resolution of the shareholders, the directors are to receive 15,000 shares in total of the common stock of the company for 1974; 13,000 shares for 1973; 13,000 shares for 1972 and 15,000 shares for 1971 and such shares only to be issued or released from pooling and sold, with the consent of the Alberta Securities Commission.

9. Commitment

The company and a 75% owned subsidiary have signed an agreement to construct a peat moss processing facility for an estimated cost of \$1,029,637.

10. Agreement

The company and a 75% owned subsidiary have signed an agreement whereby it has obtained an exclusive license in the Province of Alberta, Canada, and a preferential position on a national and international level to certain processes and equipment for processing peat moss. Under the terms of the agreement the company is obligated to pay a royalty of 3% of the total invoice price of the first 200,000 bales of peat moss sold in each calendar year, plus 2.5% of the total invoice price of the next 150,000 bales of peat moss sold in each calendar year, plus 2% of the total invoice price of the next 100,000 bales of peat moss sold in each calendar year, plus 1.5% of the total invoice price of the excess of 450,000 bales of peat moss sold in each calendar year.

11. Comparative figures

Certain of the 1977 figures have been reclassified to facilitate comparison.

NOTES

